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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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Outlook for the Economy and Real Estate

Aggregate Economy

The recovery has been interrupted by a growth recession with economic growth slowing to one percent for the first half of 1985 compared to 8.8 percent during the first half of 1984 and 2.9 percent during the second half of last year. During the first quarter Gross National Product (GNP) grew a mere 0.3 percent while during the second quarter GNP increased a modest 1.7 percent. While domestic spending continued to expand at a healthy pace, domestic production remained stagnant as the overvalued dollar, which is the result of record federal deficits, resulted in increased spending on imported goods and services and decreased demand for U.S. products in international markets. Continued growth in imports combined with declining exports resulted in a $5.1 billion decline in net exports during the second quarter which reduced GNP growth by 1.3 percentage points. In addition, an unexpectedly sharp $13.3 billion decline in domestic inventory investment cut another 3.2 percentage points from second quarter real output growth.

Second quarter real GNP growth would have been considerably higher in the absence of the negative impacts of declining net exports and reduced inventory investment, as evidenced by healthy growth in consumption and investment spending. In fact, final sales, defined as GNP less changes in business inventories, contributed 4.9 percentage points to real output growth during the second quarter, reflecting the underlying strength still present in domestic demand. Both residential and nonresidential investment showed considerable vigour due to lower interest rates. Fear of tax increases on investment appears to have added to purchases of equipment as several tax proposals currently under consideration would repeal the Investment Tax Credit and other investment incentives in 1986.

Despite near-recession growth during the first half of this year, a modest rebound is expected for the rest of 1985, due to the stimulative effects of lower interest rates as well as an expected stabilization in domestic inventories. Real GNP growth is expected to range between 2 1/2 to 3 percent during the remainder of 1985 despite slower growth of consumption spending and fixed investment. However, by 1986 the economic expansion that will have lasted 12 quarters should again lose steam with slow growth persisting throughout the year.

Lower interest rates, rapid growth of the money supply, and a slowing economy have recently caused some nervousness among foreign investors in dollar denominated assets. In response, the dollar, after climbing over the past four years, has begun to decline. However, the recent 15 percent depreciation of the dollar is not likely to reduce our trade deficit until well into 1986. This is due to the fact that there is a long lag between the rise in import prices and reduced prices of U.S. products abroad and changes in the flow of imports and exports. In the meantime, domestic purchases of foreign goods will remain strong with the total value of imports continuing to rise. As the dollar continues to decline in relation to other currencies and economic expansions abroad continue, growth in exports should start to increase while import growth slows. By 1986, the trade deficit should begin to stabilize. However, total elimination of the trade deficit is not likely until the next century given the paralysis of government regarding the federal deficit.

The fate of the dollar strongly influences the outlook for interest rates. If the dollar continues to depreciate rapidly foreign investors will be less willing to finance the federal deficit, resulting in greater competition for the supply of domestic savings leading to higher interest rates. Thus, for now the Federal Reserve Board has done all that it can to reduce interest rates. Further significant reductions in interest rates will require significant reductions in the deficit which the President and the Congress have been unwilling to adopt.

Employment and Inflation

Nonfarm payroll employment increased by 243,000 in July compared to a modest 28,000 increase in June. The larger employment increase in July reflects the modest rebound in economic activity expected for the third quarter. However, the civilian unemployment rate remained at 7.3 percent for the sixth consecutive month as the increases in employment are just keeping pace with increases in the labor force. The unemployment rate would be even higher if the large number of discouraged workers were counted amount the unemployed. Further, employment in goods-producing industries increased by just 12,000 in July whereas employment in service producing industries increased by 231,000. Manufacturing employment continued to decline as the competitiveness of domestic manufacturers in international markets continues to be hindered by the over-valued dollar. The unemployment rate should start rising later this year and into 1986 in response to slower economic growth.

The modest acceleration in inflation during the second quarter of this year was due primarily to increases in gasoline prices this past spring. During the second half of 1985 energy prices should stabilize or even fall and so help to hold down overall price increases. After rising at an annual rate of 4.2 percent during the second quarter, the Consumer Price Index should rise at an annual rate of 3 to 3 1/2 percent over the second half of 1985 and should remain at that rate in 1986 before accelerating in 1987 in response to acceleration in overall economic growth.

Fiscal Policy

Congress passed a budget resolution for fiscal year 1986 which, according to the respective budget committees, will result in $55 billion of deficit reduction in FY86 and $277 billion of deficit reduction for fiscal years 1986 to 1988 with no significant tax increases and no changes in the cost-of-living adjustment formula for Social Security and other federal retirement programs. However, actual deficit reduction is likely to be substantially less. The Congressional Budget Office (CBO) estimates that FY86 deficit reduction will be $39 billion with $200 billion reduction over the three year budgeting period. Furthermore, of that $200 billion only $68 billion is reconciled, meaning that the budget resolution provides enforceable instructions to committees to make spending reductions. The other $132 billion in spending cuts must be approved by individual appropriation committees and so are unlikely to be enacted. As a result we continue to anticipate federal deficits of $200 billion or more for the next several years.

The Reagan Administration has revised down their forecast of GNP growth for 1985 to 3 percent. However, they still remain overly optimistic that the economy will grow at a 5 percent annual rate for the rest of the year. They believe most of this growth will come from a build up of inventories as well as the stimulative effects of lower interest rates on consumption spending and investment. This stronger growth in the second half is expected to push the unemployment rate down to 7 percent. They expect the slower growth this year could increase the federal deficit by $15 billion for fiscal 1985 with the total for the year reaching $192 billion.

The likehood for this scenario is extremely low. Instead, inventory investment is expected to remain stable while growth in consumer spending and investment should slow. Most analysts agree that real growth should be around 3 percent for the third quarter before declining to 2.5 percent during the fourth quarter, putting second half growth at an annual rate of 2.8 percent in contrast to the Administration's 5 percent forecast. Real output growth for all of 1985 should remain well below 3 percent, pushing the FY85 deficit well above $200 billion.

Monetary Policy and Interest Rates

In its mid-year report to Congress the Federal Reserve Board (FED) announced a significant change in its target range for M1, the narrowest definition of the nation's money supply. The target range for M1 has been broadened from 4 to 7 percent to 3 to 8 percent while the base for computing this percentage change has been moved forward from the fourth quarter of 1984 to the second quarter of 1985. Thus, the rapid growth of M1 during the first half of this year (an annual rate of about 10 1/2 percent) has been forgiven, at least for now.

Table 1

Growth Targets for Monetary Aggregates

Monetary Aggregate	1985 February	1985 July	Preliminary 1986
M1	4% to 7%	3% to 8% 1/	4% to 7%
M2	6% to 9%	6% to 9%	6% to 9%
M3	6% to 9 1/2%	6% to 9 1/2%	6% to 9%
Domestic Nonfinancial Debt	9% to 12%	9% to 12%	8% to 11%

1/ Annual rate of growth from the second quarter of 1985 to the fourth quarter of 1985

Some analysts have incorrectly labeled this change in the M1 target range and base as an abandonment of the inflation fight by the FED. In fact, however, this change represents a responsible adaptation to a significant increase in the demand for checkable deposits, otherwise known as a decline in M1 velocity, that is expected to be permanent. In response to the sharp decline in interest rates since mid-1984, both households and businesses have shifted funds out of savings accounts and money market funds into checkable accounts such as NOW and super-NOW accounts while increasing their overall holdings of such deposits in relation to their incomes.

The FED has accomodated the increased demand for liquidity by supplying reserves to the banking system as well as reducing the discount rate from 8 to 7 1/2 percent in late May. This, along with the slowdown of the economy, resulted in five year lows for interest rates by mid-June with the rate on 3-month Treasury bills dipping below 7 percent and the rate on 30-year Treasury bonds falling to about 10 1/4 percent. Rates have risen since then, with the sharpest increases for the longer maturities, due to investor uncertainty over the strength of the economy, FED policy, and the value of the dollar. However, as the weakness of the economy becomes more evident both short- and long-term rates should edge down again over the remainder of 1985 and into 1986. In fact, we anticipate a further easing of credit conditions by the FED later this year including another cut in the discount rate in an effort to spur the economy.

Real Estate Markets

The housing industry continues to exert a positive influence on overall economic activity. Mortgage interest rates have fallen to five year lows, boosting the NAR Affordability Index 1 full percentage point in June to 91.1 percent. In response, existing home sales remained above a seasonally-adjusted annual rate of 3.0 million units in June for the fourth month in a row while housing starts hit a 1.7 million unit annual rate. As affordability continues to improve through the remainder of 1985 and into 1986 due to lower interest rates, both existing home sales and housing starts should experience additional modest improvement with existing home sales above 3 million units for both 1985 and 1986 and total housing starts between 1.85 and 1.9 million units in both years.

Although the current levels of housing activity are a significant improvement over the dark days of 1982, they are well below the levels of 1979 when market interest rates were at levels comparable to today's. For instance, in 1979 existing home sales topped 3.9 million units compared to 3.05 million units expected for 1985 - a full 22 percent lower. The difference between 1979 and 1985 home sales lies in the difference in real (inflation adjusted) mortgage rates. Currently, real mortgage interest rates are about 9 percent, more than three times what they were in 1979. Contributing to the current high level of real mortgage rates has been the continued drain of savings out of housing required to finance the huge federal deficit. Until the federal deficit is reduced considerably, the real interest rate is expected to remain double or triple the average of the past 30 years.

Second Homes

Second home mortgage deductions would be limited under the Reagan proposal by including second home interest with other personal interest and limiting the total to $5,000, plus passive investment income, after a phase-in. The rationale for this limitation is that a second home is "extraordinary consumption" enjoyed by a relatively few, high-income households which should not be subsidized by the government.

Analysis indicates that the loss of property tax deductibility and limitations on mortgage interest would cause the after-tax cost of the typical $60,000 second home to rise from 25 to 60 percent depending on the circumstances of the taxpayer who owns or is considering the purchase of a second home. This has the potential of reducing second home property values 20 to 40 percent and depressing the economies of many second or vacation home communities which exist in nearly every state.

It is also important to note that a Federal Reserve Board survey reveals that in 1983 over 60 percent of Americans who owned second homes had incomes of $30,000 or less. In fact, it is these low- and middle-income families who are second home owners who would be adversely impacted by this provision.

Commercial Real Estate

The outlook for commercial building construction remains mixed. New office building construction is expected to continue to decline through 1986 as the office vacancy rate remains at double-digit levels. Slower overall economic activity will also dampen office building construction through 1986. New construction of retail buildings, on the other hand, is expected to remain strong through 1986 as strong growth in housing starts is expected to spur demand for nearby retail space.

Table 2

U.S. ECONOMIC OUTLOOK

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	85:1	85:2	85:3	85:4	86:1	86:2	86:3	86:4	1983	1984	1985	1986	1987
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,811	3,854	3,907	3,965	4,015	4,062	4,113	4,172	3,305	3,663	3,884	4,090	4,402
Percent Change	5.6	4.6	5.7	6.0	5.1	4.8	5.2	5.8	7.7	10.8	6.0	5.3	7.6
Percent Change (without inflation)	0.3	1.7	3.0	2.6	2.0	1.5	1.7	2.1	3.7	6.8	2.3	2.1	3.2
Consumption	5.2	5.2	2.4	1.4	2.1	1.6	1.3	1.7	4.8	5.3	3.9	2.0	2.4
Durables	9.2	8.0	3.4	-1.0	0.3	-0.5	-0.5	1.2	12.1	13.1	6.9	0.7	2.4
Nondurables	3.7	5.9	0.9	1.0	1.9	1.0	1.1	0.8	3.7	4.6	2.6	1.5	1.7
Services	5.0	3.7	3.1	2.5	3.0	2.8	2.6	2.6	3.4	3.2	3.8	2.8	2.9
Residential Investment	5.5	14.0	11.2	11.8	3.7	-2.3	0.4	2.8	41.7	12.2	4.3	5.0	0.0
Nonresidential Investment	-1.5	13.6	4.3	-0.9	3.0	1.0	5.0	6.6	2.5	19.8	7.0	3.1	6.2
Structures	9.5	19.2	7.1	-3.1	-1.8	-2.3	0.9	3.9	-7.8	15.6	11.2	0.8	4.3
Equipment	-5.6	11.4	3.4	-0.1	5.0	2.4	6.7	7.6	7.3	21.5	5.4	4.1	6.9
Exports	-8.9	-12.5	4.1	11.0	12.3	12.2	11.5	11.6	-5.6	4.7	-2.9	9.2	9.2
Imports	32.2	1.4	11.0	8.4	1.1	-2.8	-2.4	-0.7	7.6	17.0	9.1	2.3	1.8
Government Purchases	0.3	3.9	3.3	0.3	0.8	0.7	0.1	-0.3	-0.3	3.5	4.1	1.0	2.1
Consumption (% of GNP)	65.5	66.0	65.9	65.7	65.7	65.8	65.7	65.7	65.8	64.8	65.8	65.7	65.2
Residential Investment (% of GNP)	3.6	3.7	3.8	3.9	3.9	3.8	3.8	3.8	3.5	3.7	3.7	3.8	3.7
Nonresidential Investment (% of GNP)	12.8	13.2	13.2	13.1	13.1	13.1	13.2	13.4	11.1	12.5	13.1	13.2	13.6
Structures (% of GNP)	3.7	3.8	3.8	3.8	3.7	3.7	3.7	3.7	3.2	3.5	3.8	3.7	3.8
Equipment (% of GNP)	9.1	9.4	9.4	9.3	9.4	9.4	9.5	9.6	7.9	9.0	9.3	9.5	9.8
Inventory Change ($ billions)	40.7	12.6	19.9	33.9	23.7	12.8	-0.5	-12.0	-13.5	58.2	26.8	6.0	-3.2
Mfg. Capacity Utilization Rate (%)	81	80	80	80	79	79	79	79	74	81	80	79	80
Auto Sales (millions of units)	10.8	10.9	10.9	10.7	10.6	10.4	10.4	10.4	9.2	10.4	10.8	10.5	10.6
Domestic (% of total)	78.0	75.5	71.2	71.0	72.3	70.9	67.8	65.9	74.0	76.5	73.9	69.2	66.1
Imported (% of total)	22.0	24.5	28.8	29.0	27.7	29.1	32.2	34.1	26.0	23.5	26.1	30.8	33.9
Manufacturing Industrial Production (% change)	1.1	2.6	1.9	2.6	2.6	2.2	2.7	4.3	7.8	11.2	2.2	2.5	5.5
Common Market	0.8	6.2	3.2	2.1	2.1	2.2	1.4	2.7	0.4	5.2	2.8	2.4	1.3
Japan	-1.8	5.3	7.3	6.7	11.1	6.3	4.2	2.4	3.5	11.0	5.2	7.1	1.3
Trade Deficit	120	128	143	151	148	143	139	135	41	102	135	141	133
Value of the U.S. Dollar (Weighted by Trade)	1.350	1.313	1.229	1.187	1.143	1.114	1.085	1.068	1.142	1.224	1.270	1.102	1.069
Percent Change - Year Ago	15.2	10.5	-1.7	-7.5	-15.3	-15.1	-11.7	-10.0	4.0	7.2	3.8	-13.2	-3.1
Employment(millions)(civilian:household basis)	106.7	106.8	107.1	107.7	108.0	108.4	108.7	109.0	100.8	105.0	107.1	108.5	110.3
Percent Change	3.0	0.1	1.5	2.0	1.2	1.4	1.1	1.3	1.3	4.1	2.0	1.4	1.7
Unemployment Rate (%) (civilian)	7.3	7.3	7.3	7.4	7.4	7.5	7.7	7.8	9.6	7.5	7.3	7.6	7.8
Personal Income per Household (average)<1>	40,078	40,468	40,926	41,421	41,962	42,452	42,943	43,439	35,416	38,527	40,723	42,699	45,299
Percent Change -- Year Ago (w/o inflation)	3.5	2.3	1.8	1.3	1.1	1.2	1.1	0.9	1.5	5.4	2.2	1.1	1.8
Personal Taxes per Household (average)	7,740	7,236	7,623	7,728	7,832	7,943	8,056	8,174	6,478	6,956	7,582	8,001	8,572
Percent Change -- Year Ago (w/o inflation)	10.6	1.2	4.9	4.2	-1.7	6.5	2.4	2.4	-3.0	3.5	5.2	2.3	2.7
Percent of Personal Income	20.2	18.7	19.5	19.5	19.6	19.6	19.6	19.7	19.1	18.8	19.5	19.6	19.8
Disposable Income per Household (average)	32,338	33,233	33,303	33,693	34,130	34,509	34,887	35,265	28,938	31,571	33,142	34,698	36,727
Percent Change--Year Ago (w/o inflation)	2.0	2.7	1.4	1.0	2.1	0.2	1.0	0.8	2.5	5.7	1.8	1.0	1.6
Household Debt (% of total)	23.1	23.2	23.8	24.1	24.2	24.2	24.3	24.2	19.7	21.2	23.6	24.2	23.6
Household Interest Payments (% of total)	10.3	10.4	10.9	10.9	10.8	10.8	10.7	10.2	9.7	10.4	10.6	10.6	9.9
Consumer Price Inflation (CPI)	3.3	4.2	2.8	3.6	3.4	3.5	3.8	3.9	3.2	4.3	3.5	3.5	4.1
Gross National Product Inflation (GNP Deflator)	5.4	2.8	2.6	3.3	3.1	3.3	3.4	3.6	3.8	3.8	3.6	3.2	4.3
Personal Consumption Inflation	3.3	3.1	3.3	3.7	3.6	3.8	4.0	4.0	3.7	3.2	3.2	3.7	4.1
Residential Construction Inflation	-0.6	-2.2	3.1	3.9	4.7	4.9	4.9	5.1	1.7	3.9	1.4	4.0	5.1
Nonresidential Construction Inflation	3.4	3.0	2.8	3.6	4.5	4.3	4.4	4.5	-1.0	0.3	2.5	4.0	4.6
Producers Price Inflation (WPI)	-2.2	0.4	0.4	2.5	2.1	2.1	2.8	3.3	1.3	2.4	-0.1	2.0	3.4
Compensation per Manhour (% change)	5.5	4.0	3.9	4.2	5.0	4.0	4.4	4.7	4.8	4.2	4.2	4.4	5.2
Productivity (% change)	-2.6	0.4	1.3	1.8	1.1	0.6	0.7	1.0	3.4	2.7	0.3	1.1	1.8
Unit Labor Cost (% change)	8.2	2.7	3.4	2.3	3.9	3.4	3.7	3.7	1.3	1.4	3.8	3.3	3.3
Before Tax Corporate Profits ($ billions)<2>	229	220	218	220	222	222	223	228	213	243	221	224	265
Corporate Tax Liability	92	83	81	81	83	82	81	83	86	98	84	82	104
After Tax Profits	137	136	137	138	139	140	142	145	127	146	137	142	161
Inventory Valuation Adjustment	1	0	-6	-12	-14	-14	-16	-18	-11	-6	-4	-15	-20
Capital Consumption Adjustment	69	76	82	86	87	85	82	82	33	56	79	84	76
Profits from Current Production (with IVA, CCA)	207	213	213	213	213	211	209	209	149	196	211	210	217
Adjusted for Inflation (85:1 base)	207	211	210	209	207	203	199	198	159	201	209	202	200
Percent Change - Year Ago	7.9	5.1	3.0	1.1	-0.1	-3.8	-5.0	-5.4	46.0	26.5	4.2	-3.6	-1.0
Per Unit of Output (% of GNP)	5.4	5.5	5.4	5.4	5.3	5.2	5.1	5.0	4.5	5.3	5.4	5.1	4.9
Effective Corporate Tax Rate (%)<2>	30	27	27	27	27	27	27	28	34	32	27	27	32
Federal Tax Receipts (Unified basis)	696	809	737	674	663	708	746	708	613	683	729	756	827
Percent of GNP	18.3	21.0	18.9	17.0	16.5	17.4	18.1	17.0	18.6	18.7	18.8	18.5	18.8
Federal Expenditures (Unified basis)	919	935	927	978	970	974	952	1,013	803	868	940	977	1,047
Percent of GNP	24.1	24.3	23.7	24.7	24.2	24.0	23.2	24.3	24.3	23.7	24.2	23.9	23.8
Surplus or Deficit (Unified basis)	-223	-125	-190	-303	-307	-66	-206	-305	-190	-184	-210	-200	-205
% of GNP	5.8	3.3	4.9	7.6	7.6	1.6	5.0	7.3	5.8	5.0	5.4	4.9	4.7
% of Personal Savings	187.8	86.7	160.4	245.4	237.6	50.1	154.3	228.3	158.1	117.2	170.1	151.6	135.0
% of Net Domestic Savings	75.5	38.7	64.1	101.7	102.8	22.3	70.3	105.4	80.0	56.5	70.0	68.1	63.9

<1> Includes personal contributions for social insurance.
<2> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Dr. Richard Peach, and Janemarie Mulvey.

Table 3

REAL ESTATE AND FINANCIAL MARKETS

	QUARTERS							YEARS				
	Actual		Forecast					Actual		Forecast		
	85:1	85:2	85:3	85:4	86:1	86:2	86:3	86:4	1983	1984	1985	1986	1987
REAL ESTATE MARKETS													
Total Single-Family Home Sales (thousands)	4,057	4,092	4,282	4,289	4,246	4,246	4,248	4,254	3,750	3,936	4,180	4,249	4,086
(single-family resales and completions)													
Percent Change -- Year Ago	-1.9	0.8	15.0	12.1	4.7	3.8	-0.8	-0.8	42.4	5.0	6.2	1.6	-3.8
Existing Single-Family Home Sales (thousands)	2,970	3,050	3,085	3,095	3,095	3,099	3,101	3,105	2,716	2,866	3,050	3,100	2,990
Percent Change - Year Ago	1.9	2.6	11.7	10.0	4.2	1.6	0.5	0.3	36.5	5.5	6.4	1.6	-3.5
Dollar Volume (billions)	261.3	276.0	278.1	271.8	276.9	281.8	282.9	276.9	224.2	247.1	271.8	279.6	277.7
Existing Home Prices - Median ($1000's)	73.8	75.3	75.9	74.6	76.6	78.3	78.9	77.4	69.8	72.3	74.9	77.8	81.1
Percent Change - Year Ago	3.6	3.6	3.7	3.6	3.7	3.9	3.9	3.8	3.2	3.5	3.6	3.8	4.2
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	657	655	634	618	625	630	620	599	628	680	641	618	662
Percent of Median Family Income	30	29	28	27	27	27	26	25	32	32	29	26	27
Private Housing Starts (thousands)	1,795	1,770	1,953	1,959	1,884	1,889	1,897	1,910	1,703	1,766	1,869	1,895	1,840
Percent Change - Year Ago	-7.8	-4.7	17.4	22.6	4.9	6.7	-2.8	-2.5	61.0	3.8	5.8	1.4	-2.9
Single-Family	1,121	1,074	1,234	1,231	1,187	1,183	1,182	1,184	1,066	1,103	1,165	1,184	1,130
Percent of Total	62.5	60.7	63.2	62.8	63.0	62.6	62.3	62.0	62.6	62.4	62.3	62.5	61.4
Multi-Family	674	696	718	728	697	706	716	725	637	664	704	711	710
Percent of Total	37.5	39.3	36.8	37.2	37.0	37.4	37.7	38.0	37.4	37.6	37.7	37.5	38.6
Mobile Home Shipments	277	287	296	300	298	300	300	299	296	295	290	298	293
New Single-Family Home Sales (thousands)	669	657	665	640	661	674	702	711	628	639	658	687	645
Percent Change - Year Ago	-3.3	3.8	8.2	3.6	-1.3	2.5	5.6	11.2	50.5	1.8	2.9	4.4	-6.1
New Home Prices - Median ($1000's)	83.0	84.1	84.9	85.8	87.3	88.8	90.4	92.1	75.5	80.0	84.5	89.6	95.0
Percent Change - Year Ago	6.5	4.4	4.4	6.9	5.2	5.6	6.5	7.2	8.9	6.0	5.5	6.1	6.0
New Home Prices--Mean ($1000's, Quality Adjusted)	95.2	95.6	95.4	96.2	97.4	99.6	99.7	100.9	89.7	93.7	95.6	99.4	104.5
Percent Change - Year Ago	4.6	2.4	0.3	1.0	2.3	4.1	4.6	4.9	2.1	4.5	2.0	4.0	5.1
NAR Affordability Index	88.4	90.5	92.1	94.4	94.1	94.2	96.1	100.5	82.0	86.2	91.3	96.2	97.3
Mortgage Debt Outstanding ($ billions)	2,077	2,613	2,912	3,166	3,382	3,573	3,746	3,906	1,755	1,956	2,692	3,652	4,260
Homeowners' Equity ($ billions)	2,253	2,234	2,242	2,258	2,280	2,302	2,324	2,348	2,242	2,278	2,247	2,314	2,424
Housing Inventory (millions)	95.3	95.7	96.1	96.6	97.0	97.4	97.9	98.3	92.7	94.4	95.9	97.7	99.3
Rental Vacancy Rate (%)	6.3	6.0	5.9	5.8	5.8	5.8	5.9	5.9	5.6	5.9	6.0	5.8	5.9
Office Vacancy Rate (%)<1>	15.4	16.1	15.3	15.0	14.5	14.3	14.1	14.0	11.7	13.9	15.5	14.2	13.6
Industrial Vacancy Rate (%)<1>	4.0	4.9	4.5	4.5	4.3	4.2	4.0	3.9	4.9	4.7	4.5	4.1	3.5
New Commercial Building Construction (% Ch Value)	52.6	18.6	-4.8	0.1	-0.7	1.3	3.0	4.1	-4.2	33.7	26.6	1.2	7.4
New Industrial Building Construction (% Ch Value)	21.6	72.5	-32.0	2.2	-0.8	3.9	7.4	13.5	-25.7	5.9	17.6	1.1	16.0
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-7%)	10.9	10.6	5.3	6.0	5.4	5.4	5.8	5.4	11.2	6.9	7.3	5.9	5.6
M1 Velocity (% change)	-4.8	-5.4	0.4	0.0	-0.3	-0.6	-0.6	0.4	-3.2	3.7	-1.2	-0.5	1.9
M2 (% change)(FED Target 6-9%)	12.6	5.4	9.2	6.5	6.7	6.5	6.9	7.0	12.5	7.9	8.8	6.9	7.2
M2 Velocity (% change)	-6.2	-0.8	-3.2	-0.5	-1.4	-1.6	-1.6	-1.1	-4.4	2.7	-2.5	-1.5	0.4
Monetary Base (% change)	6.8	9.3	7.0	6.2	5.1	4.7	4.8	5.0	9.5	8.1	7.0	5.7	5.1
Flow of Funds (NIA Basis)													
Sources (total:gross savings)	671	657	672	687	696	700	701	707	478	653	672	698	749
Private	119	145	118	124	129	132	133	134	118	156	126	132	151
Personal Savings	4.5	5.3	4.3	4.4	4.6	4.6	4.6	4.5	5.0	6.1	4.6	4.6	4.9
Savings Rate	544	554	559	565	570	578	582	588	454	519	555	579	615
Gross Business Savings													
Government	-165	-222	-201	-202	-197	-188	-199	-193	-179	-176	-197	-200	-203
Federal	54	52	52	50	47	46	46	44	44	53	52	46	53
State and Local	120	128	143	151	148	143	139	135	41	102	135	141	133
Foreign (current account deficit)													
Uses (total:gross investment)	647	639	659	681	682	679	678	683	472	638	657	681	732
Nonresidential Investment	288	295	299	300	307	312	321	330	223	275	296	317	352
Equipment	163	172	176	176	177	178	180	184	130	150	171	180	196
Structures	155	160	165	171	175	176	178	181	132	154	163	178	186
Residential Investment	41	13	20	34	24	13	-1	-12	-13	58	27	6	-3
Inventory Investment													
Selected Interest Rates (Percent)													
Mortgage Commitment Rates													
30 Year,Fixed-Rate	13.7	13.4	12.8	12.7	12.5	12.3	12.0	11.8	13.8	14.5	13.1	12.2	12.5
Real Mortgage Rate (30 yr. avg. is 4.5%)	8.3	10.6	10.2	9.4	9.4	9.0	8.6	8.2	10.1	10.9	9.6	8.8	7.7
1 Year ARM (without buy-down)	11.1	10.2	10.0	10.2	10.2	9.8	9.8	9.9	11.3	12.6	10.4	9.9	10.5
Real Mortgage Rate	5.7	7.4	7.4	7.0	7.1	6.6	6.4	6.3	7.5	9.0	6.9	6.6	5.7
Corporate Bond Rate (AAA)	12.3	11.6	10.9	10.7	10.3	10.2	9.9	9.9	12.0	12.7	11.4	10.1	10.5
Government Bond Rate	11.8	11.1	10.7	10.5	9.9	9.7	9.4	9.4	11.5	12.5	11.0	9.6	10.0
Real Government Bond Rate (30 yr. avg. is 2.1%)	6.4	8.4	8.1	7.2	6.8	6.4	6.0	5.8	7.6	8.9	7.5	6.3	5.2
Federal Funds Rate	8.5	7.9	7.8	7.7	7.6	7.4	7.3	7.5	9.1	10.2	8.0	7.5	8.5
3 Month Treasury Bill Rate	8.2	7.5	7.2	7.4	7.4	7.0	7.0	7.1	8.6	9.5	7.5	7.1	7.7
Real 3 Month T-Bill Rate (30 yr. avg is 1.2%)	2.8	4.7	4.5	4.1	4.3	3.7	3.6	3.5	4.8	5.9	4.0	3.8	3.0
1 Year Treasury Bill Rate	9.4	8.5	8.3	8.5	8.5	8.1	8.1	8.2	9.6	10.9	8.7	8.2	8.8
Real 1 Year T-Bill Rate (30 yr. avg is 1.7%)	4.0	5.7	5.7	5.5	5.4	4.9	4.7	4.6	5.8	7.3	5.2	4.9	4.0
Commercial Paper Rate	8.5	7.9	7.5	7.7	7.6	7.4	7.3	7.5	8.9	10.1	7.9	7.5	8.4
Rate on Money Market Fund Shares	8.6	7.9	7.6	7.8	7.2	7.5	7.4	7.6	9.0	10.3	8.0	7.6	8.5
Prime Rate	10.5	10.2	9.4	9.3	9.2	9.1	8.7	9.0	10.8	12.0	9.9	9.0	10.0

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Dr. Richard Peach and Janemarie Mulvey